

**FINANCIAL REPORT  
NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS  
SEPTEMBER 30, 2003**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Northeast Michigan Council of Governments</b>	County <b>Otsego</b>
Audit Date <b>9/30/03</b>	Opinion Date <b>11/18/04</b>	Date Accountant Report Submitted to State: <b>2/7/05</b>	

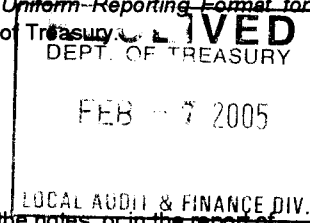
We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Hill, Schroderus &amp; Co., LLP</b>			
Street Address <b>923 Spring Street</b>	City <b>Petoskey</b>	State <b>MI</b>	ZIP Code <b>49770</b>
Accountant Signature <i>Bonnie Bernberg CPA</i>		Date <b>2/4/05</b>	

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS  
FINANCIAL REPORT  
September 30, 2003**

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# Hill - Schroderus & Co., LLP

Certified Public Accountants & Consultants

November 18, 2004

## Independent Auditors' Report

Board of Directors  
Northeast Michigan Council of Governments  
Gaylord, Michigan

We have audited the accompanying financial statements of the business-type activities of the Northeast Michigan Council of Governments, as of and for the year ended September 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Northeast Michigan Council of Governments' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Northeast Michigan Council of Governments as of September 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Northeast Michigan Council of Governments has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of October 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2004, on our consideration of the Northeast Michigan Council of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors  
Northeast Michigan Council of Governments

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Michigan Council of Governments' basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and non-federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Northeast Michigan Council of Governments. The other supplemental information and the schedule of expenditures of federal and non-federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan



Northeast Michigan Council of Governments

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## Management's Discussion and Analysis

### Overview of the Basic Financial Statements

Northeast Michigan Council of Governments' basic financial statements include government-wide statements and notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

### Government-wide Financial Statements

The government-wide financial statements report information on the Council's business type fund. The government-wide statements are designed to provide readers with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the Council's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented, as applicable.

The Statement of Activities focuses on the current year's revenues and expenses using accounting methods similar to those used by private sector businesses. This statement measures the Council's change in net assets for the year.

### Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide financial statements.

### Other Supplementary Information

A listing of planning projects and programs is provided in the Other Supplementary Information as well as a combining statement of program activity. This information is not required as a part of the basic financial statements.

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Since  
1968

## Government-wide Financial Analysis

The table below summarizes the Council's net assets as of September 30, 2003:

<b>Assets</b>	
Current and other assets	\$ 239,436
Capital assets - net of accum dep	<u>-</u>
Total assets	<u>239,436</u>
<b>Liabilities</b>	
Current liabilities	244,958
Non-current liabilities	<u>6,774</u>
Total liabilities	<u>251,732</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	-
Unrestricted	<u>(12,296)</u>
Total net assets	<u>\$ (12,296)</u>

The Council's capital assets are fully depreciated and consequently report no value to the Council. Capital assets are used in supporting the Council's planning services.

The remaining portion of net assets, unrestricted net assets, may be used at the Council's discretion to meet ongoing obligations. The Council is reporting a negative unrestricted net assets category. The negative balance improved during fiscal year 2003, but still shows a deficit due to outstanding liabilities which are paid by the Council when they come due, rather than when they are incurred.

The results for the Council as a whole are reported in the Statement of Activities, which is summarized below:

Revenues and Other Support	\$ 992,498
Expenses	<u>977,324</u>
Change in net assets	15,174
Net assets-beginning of year	<u>(27,470)</u>
Net assets-end of year	<u>\$ (12,296)</u>

As shown above, the current year operating gain was \$15,174. Program revenues are directly related to program expenses. The Council relies on member appropriations each year from local units of government to help offset costs. The Council experienced an increase in net assets primarily due to increased member appropriations.

## Capital Assets

At September 30, 2003 the Council had \$45,194 invested in capital assets. The following table summarizes the capital asset activity for the year:

	<u>Oct 1, 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Sept 30, 2003</u>
Assets being depreciated	\$ 45,194	\$ -	\$ -	\$ 45,194
Less accum depreciation	<u>45,194</u>	<u>-</u>	<u>-</u>	<u>45,194</u>
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## Economic Factors

Northeast Michigan Council of Governments is a regional planning "commission" servicing various counties and local units of government in Northeast Michigan. The Council's funding is obtained from member appropriations as well as federal, state and other grants or contracts. Consequently, the Council is affected by economic fluctuations affecting Northeast Michigan as well as state and federal budgetary constraints.

## Financial Contact

The Council's financial statements are designed to present users with a general overview of the Council's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Executive Director of Northeast Michigan Council of Governments.



**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS**  
**STATEMENT OF NET ASSETS**  
**September 30, 2003**

<u>Assets</u>	<u>2003</u>
Current assets:	
Cash	\$ 68,196
Accounts receivable	2,443
Due from grantors	166,792
Prepaid expenses	2,005
	<hr/>
Total current assets	239,436
	<hr/>
Fixed assets	45,194
Less: accumulated depreciation	(45,194)
	<hr/>
Total fixed assets (net)	-
	<hr/>
Total assets	\$ 239,436
	<hr/> <hr/>
 <u>Liabilities and Fund Equity</u>	
Current liabilities:	
Accounts payable	\$ 169,409
Accrued payroll and taxes withheld	30,931
Notes payable - current portion	6,272
Due to MESCA and NEMRA	4,494
Due to grantors	934
Deferred revenue	32,918
	<hr/>
Total current liabilities	244,958
	<hr/>
Notes payable - long term	6,774
	<hr/>
Total liabilities	251,732
	<hr/>
Net assets:	
Invested in capital assets, net of related debt	-
Unrestricted	(12,296)
	<hr/>
Total net assets	(12,296)
	<hr/>
Total liabilities and net assets	\$ 239,436
	<hr/> <hr/>

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended September 30, 2003**

	<u>2003</u>
Revenues and other support:	
Federal	\$ 373,837
State	308,622
Local	187,379
In-kind contributions	121,992
Other income	<u>668</u>
Total revenues and other support	<u>992,498</u>
Expenses:	
Salaries	289,099
Fringes	91,256
Consultant fees	335,489
Education	7,065
Advertising	267
Supplies	2,932
Postage	854
Telephone	490
Travel	19,833
Printing	179
Equipment usage and maintenance	825
Direct equipment and software	8,129
Dues and subscription	3,119
Meeting expense	2,829
Consultant travel	1,789
Interest	1,465
Legal and accounting services	9,115
Other:	
Other direct	5,393
Other in-kind	125,066
Indirect costs	<u>72,130</u>
Total expenses	<u>977,324</u>
Change in net assets	15,174
Net assets, beginning	<u>(27,470)</u>
Net assets, ending	<u><u>\$ (12,296)</u></u>

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments. In accordance with Statement No. 34, the Council is considered to be a Special Purpose Government due to being established to serve one particular purpose. To conform with the Statement, the Council has included a Management's Discussion and Analysis section. Because this is the first year of implementation of GASB Statement No. 34, prior year numbers are not presented within the Management's Discussion and Analysis. A comparative analysis will be provided in future years when prior year information is available.

The financial statements of the Northeast Michigan Council of Governments are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Council's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989, are not applied in the preparation of the financial statements of the proprietary fund in accordance with GASB Statement No. 20.

**A. Reporting Entity**

The Northeast Michigan Council of Governments (the Council) is a regional planning "commission", as defined by Public Act 281 of 1945 of the State of Michigan, servicing various counties and local units of governments in Northeast Michigan. Through the Council, the units coordinate their efforts to maintain and improve the physical, economic and social well being of the area. The Council has been determined to be a local unit of government for financial purposes.

The Council's funding is obtained from county per capita dues and federal, state and other contracts for specified projects designed to further the Council's goals and objectives. Consequently, the Council's ability to collect the amounts due from the various counties and local units of government is affected by economic fluctuations affecting Northeast Michigan.

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the Council and included in the Council's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Council has no component units.

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are to be recognized in the financial statements. As a governmental not-for-profit, which previously reported using the AICPA not-for-profit model, the Council is allowed to report as a special purpose government engaged only in business type activities.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### B. Basis of Accounting (continued)

The Council recognizes revenues and expenses on the "accrual basis of accounting". Under this method, revenues are recognized when earned and expenses (including depreciation) are recognized when a liability is created.

#### C. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

#### D. Receivables

The Council provides many services to governmental and quasi-governmental agencies. The Council has contracts to provide payment for these services rendered, along with other performance related objectives achieved, up to a maximum contractual dollar amount.

#### E. Capital Assets

Capital assets, which include furniture and equipment, are reported in the Statement of Net Assets. Capital assets are defined by the Council as assets that are purchased or acquired with an estimated useful life in excess of one year. Such assets are reported at historical cost. Contributed assets are reported at fair market value as of the date donated. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and other equipment	5-15 years
-------------------------------	------------

Equipment purchased with governmental grants, which could, subject to the specific contract terms, revert to the grantor, are expenses to the grant when acquired. All property and equipment was fully depreciated as of September 30, 2003.

#### F. Revenues and Other Support

##### Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted or restricted support, depending on the existence and/or nature of any donor restrictions.

##### Deferred Revenue

Resources from various grants are recorded as revenue when the related costs are incurred. Donor restricted contributions and contractual advances are deferred and recognized over the periods to which the terms of the restricted contributions are substantially met and the contractual services are provided.

##### Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Donated Services

Agencies, business firms and others contribute materials and services toward the fulfillment of projects initiated by the Council. To the extent that contributions of materials and services are objectively measurable and represent program or support expenditures which would otherwise be incurred by the Council, they are reflected in both other support and program expenses in the accompanying financial statements.

No volunteer services have been valued in the financial statements in as much as there is no objective basis available to measure the value of such services; however, a number of volunteers have donated substantial amounts of their time to program services.

#### **G. Expenses**

Expenses identified as applying to a specific program or supporting service are recorded in the appropriate service area as incurred. Expenses not directly attributable to a program or supporting service are allocated between service areas based on an indirect cost rate.

#### **H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **I. Income Taxes**

The Council is a governmental unit as defined by Public Act 281 of 1945 of the State of Michigan and is therefore exempt from federal income taxation.

### NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Council to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Council is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Council's deposits and investment policy are in accordance with statutory authority.

#### Cash Deposits

The Council places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. As of September 30, 2003, the Council had no significant concentrations of credit risk from temporary cash investments.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 3: CAPITAL ASSETS

Capital asset activity of the Council's primary government for the current year was as follows:

	Balance October 1, 2002	Additions	Deletions	Balance September 30, 2003
Capital Assets				
Being Depreciated:				
Equipment	\$ 45,194	\$ -	\$ -	\$ 45,194
Less Accumulated Depreciation:				
Equipment	(45,194)	-	-	(45,194)
Governmental Activities Net Capital Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There was no depreciation expense charged for the current year.

## NOTE 4: DUE FROM GRANTORS

The amount reported as "Due from Grantors" as of September 30, 2003, consists of amounts due from the following:

Presque Isle County	\$ 11,286
State of Michigan Department of Environmental Quality	33,157
U.S. Department of Agriculture	15,904
State of Michigan Office of Community Corrections	28,356
State of Michigan Department of Transportation	67,679
Others	<u>10,410</u>
Total Due from Grantors	<u>\$166,792</u>

## NOTE 5: LEASES

Northeast Michigan Council of Governments leases a building under an operating lease that expires November 30, 2003. Amounts charged to expense under the operating lease totaled \$16,500 for the year ended September 30, 2003.

The Council has a first option to renew the lease at the expiration of the term. The lease or extension thereof may be canceled, with sixty (60) days prior written notice, by the Council if funds are not available.

# NOTES TO FINANCIAL STATEMENTS – CONTINUED

## NOTE 6: DEFERRED COMPENSATION PLAN

The Council offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all Council employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

## NOTE 7: DEFINED CONTRIBUTION PLAN

The Council provides pension benefits for full time employees, as designated by Council, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Council's contributions for each employee (and interest allocated to each employee's account) are fully vested immediately.

The Council's total payroll in fiscal year 2003 was \$289,099. As established by Council and governed by Federal regulations, the Council contributed 5% of the employees base wages, that were established on October 1, 1999, to a qualified retirement account. Contributions for the year totaled \$14,341.

## NOTE 8: LONG-TERM DEBT

The following is a summary of the Council's long-term debt transactions for the year ended September 30, 2003:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Notes payable:	<u>\$ 18,677</u>	<u>\$ -</u>	<u>\$ 5,631</u>	<u>\$ 13,046</u>	<u>\$ 6,272</u>

Long-term liabilities payable at September 30, 2003 is composed of the following individual issue:

\$28,000 note payable. The monthly payment is \$610, with interest at a rate of 10.25%. The maturity date is September 2005.

\$ 13,046

The annual requirements to maturity for the outstanding note payable as of September 30, 2003, are as follows:

Year Ending September 30	Principal	Interest
2004	\$ 6,272	\$ 1,048
2005	<u>6,774</u>	<u>374</u>
Total	<u>\$ 13,046</u>	<u>\$ 1,422</u>

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 9: LINE OF CREDIT

The Council has available a revolving line of credit with a bank for \$35,000. The line of credit is renewed on an annual basis. Borrowings under the line of credit bear interest at the bank's prime rate plus 1%. All borrowings are collateralized by substantially all assets of the Council. There were no outstanding borrowings on the line of credit at September 30, 2003.

### NOTE 10: INDIRECT COSTS

Indirect costs which support all projects are allocated based on the ratio of the individual project's salaries and fringe benefits to total projects salaries and fringe benefits. The following are the total indirect costs allocated to projects, including agency administration:

Supplies & printing	\$ 8,761
Postage	3,579
Legal and accounting	15,645
Staff travel	4,204
Telephone	5,139
Rent	15,235
Equipment usage and maintenance	4,476
Dues, subscription and education	5,747
Interest and service charges	3,654
Computers/software and support	4,127
Other	1,563
	<u>\$ 72,130</u>

### NOTE 11: CONTINGENCIES

Certain funded contractual programs are subject to audit by the grantors. Upon audit, some expenditures may be disallowed and as a result, those amounts may be refundable. Such refunds if any, are generally payable from the Council's unrestricted fund balance. The Council feels that any potential disallowances are immaterial.

### NOTE 12: RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Council carries commercial insurance for risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.



## OTHER SUPPLEMENTAL INFORMATION

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS  
PROGRAM ACTIVITY  
COMBINING STATEMENT  
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	EDA Grant (1)	EDA Grant (2)	CDBG Sunrise (3)	EDA II (4)
<b>Revenues and other support:</b>				
Federal	\$ 25,391	\$ 12,397	\$ 3,336	\$ 11,688
State	-	-	-	-
Local	-	44	-	-
Contributions:				
In-Kind	20,742	-	-	-
Other	-	-	-	-
Total revenues and other support	<u>46,133</u>	<u>12,441</u>	<u>3,336</u>	<u>11,688</u>
<b>Expenses:</b>				
Salaries	14,111	6,436	109	1,951
Fringes	4,448	2,029	34	615
Consultant fees	640	-	2,268	7,100
Education	-	-	-	-
Advertising	-	-	-	-
Supplies	-	72	-	-
Postage	-	-	-	-
Telephone	68	58	-	-
Travel	1,751	912	9	296
Printing	-	-	-	110
Equipment usage and maintenance	-	-	-	-
Direct equipment and software	-	-	-	-
Dues and subscription	903	936	-	38
Meeting expense	-	509	-	-
Consultant travel	-	-	-	-
Interest	-	-	-	-
Legal and accounting services	-	-	-	-
Other:				
Other direct	-	-	889	1,096
Other in-kind	20,742	-	-	-
Indirect costs	3,470	1,583	27	480
Total expenses	<u>46,133</u>	<u>12,535</u>	<u>3,336</u>	<u>11,686</u>
<b>Excess (deficiency) of revenues and other support over expenses</b>	<u>\$ -</u>	<u>\$ (94)</u>	<u>\$ -</u>	<u>\$ 2</u>

OCC (5)	MDOT (6)	Alpena Transp. (7)	I-75 E/W Crossing (8)	Heritage (9)	Emmet Co. Transit (10)	Thunder Bay II (11)
\$ -	\$ -	\$ 11,952	\$ 44,000	\$ 65,000	\$ 6,162	\$ 65,188
209,887	64,655	3,103	11,000	-	1,541	-
4,761	-	9,600	4,987	-	-	-
-	-	-	-	-	-	6,937
-	-	-	-	-	-	-
<u>214,648</u>	<u>64,655</u>	<u>24,655</u>	<u>59,987</u>	<u>65,000</u>	<u>7,703</u>	<u>72,125</u>
18,501	31,227	9,444	12,358	34,248	4,906	31,960
5,832	9,844	2,977	3,896	10,796	1,546	10,075
170,616	9,935	12,290	35,229	10,000	-	13,681
7,065	-	-	-	-	-	-
-	-	-	267	-	-	-
145	1,460	87	63	104	-	32
95	18	-	-	128	-	-
364	-	-	-	-	-	-
897	3,912	700	148	1,374	44	2,394
-	-	-	-	-	-	6
825	-	-	-	-	-	-
547	190	-	4,987	-	-	-
-	550	124	-	-	-	120
246	460	-	-	12	-	-
1,772	-	17	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,281	13	-	-	182	-	-
-	-	-	-	-	-	6,937
<u>4,549</u>	<u>7,678</u>	<u>2,322</u>	<u>3,039</u>	<u>8,421</u>	<u>1,207</u>	<u>7,859</u>
<u>213,735</u>	<u>65,287</u>	<u>27,961</u>	<u>59,987</u>	<u>65,265</u>	<u>7,703</u>	<u>73,064</u>
<u>\$ 913</u>	<u>\$ (632)</u>	<u>\$ (3,306)</u>	<u>\$ -</u>	<u>\$ (265)</u>	<u>\$ -</u>	<u>\$ (939)</u>

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS**  
**PROGRAM ACTIVITY**  
**COMBINING STATEMENT - (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	Twin Lakes (12)	Cheboygan River (13)	Misery Bay (14)	CZM (15)
<b>Revenues and other support:</b>				
Federal	\$ -	\$ 63,590	\$ 17,497	\$ 3,104
State	13,048	-	-	-
Local	-	-	-	-
Contributions:				
In-Kind	11,300	13,089	-	-
Other	-	-	-	-
Total revenues and other support	<u>24,348</u>	<u>76,679</u>	<u>17,497</u>	<u>3,104</u>
<b>Expenses:</b>				
Salaries	2,095	25,560	10,507	1,640
Fringes	660	8,057	3,312	517
Consultant fees	11,047	24,687	-	-
Education	-	-	-	-
Advertising	-	-	-	-
Supplies	-	-	-	-
Postage	-	-	32	-
Telephone	-	-	-	-
Travel	-	-	-	-
Printing	23	738	851	89
Equipment usage and maintenance	-	-	38	-
Direct equipment and software	-	-	-	-
Dues and subscription	-	-	-	-
Meeting expense	-	-	174	-
Consultant travel	-	38	-	-
Interest	-	-	-	-
Legal and accounting services	-	-	-	-
Other:	-	-	-	-
Other direct	-	35	-	-
Other in-kind	11,300	13,088	-	-
Indirect costs	515	6,285	2,583	404
Total Expenses	<u>25,640</u>	<u>78,488</u>	<u>17,497</u>	<u>2,650</u>
<b>Excess (deficiency) of revenues and other support over expenses</b>	<u>\$ (1,292)</u>	<u>\$ (1,809)</u>	<u>\$ -</u>	<u>\$ 454</u>

CZM GIS (16)	Bovine TB Study (17)	Link Michigan (18)	Hazard Mitigation (19)	Alpena Plng Comm. (20)	Other (21)
\$ 6,495	\$ 38,037	\$ -	\$ -	\$ -	\$ -
-	-	5,388	-	-	-
-	220	924	84,424	15,158	17,544
16,050	6,233	3,000	26,423	-	-
-	-	-	-	-	-
<u>22,545</u>	<u>44,490</u>	<u>9,312</u>	<u>110,847</u>	<u>15,158</u>	<u>17,544</u>
4,152	29	3,148	50,313	8,503	12,402
1,309	9	992	15,861	2,681	3,910
-	37,996	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	565	-	-
-	-	113	-	-	73
-	-	-	-	-	-
13	-	144	2,909	1,883	723
-	-	-	-	-	-
-	-	-	2,405	-	-
-	-	-	-	-	-
-	261	1,141	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,050	6,233	3,000	26,423	-	-
1,021	7	774	12,371	2,091	3,051
<u>22,545</u>	<u>44,535</u>	<u>9,312</u>	<u>110,847</u>	<u>15,158</u>	<u>20,159</u>
<u>\$ -</u>	<u>\$ (45)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,615)</u>

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS**  
**PROGRAM ACTIVITY**  
**COMBINING STATEMENT - (Continued)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	Individual Program Subtotal	General Program Operations	Total Program Activity
<b>Revenues and other support:</b>			
Federal	\$ 373,837	\$ -	\$ 373,837
State	308,622	-	308,622
Local	137,662	49,717	187,379
Contributions:			
In-Kind	103,774	18,218	121,992
Other	-	668	668
Total revenues and other support	923,895	68,603	992,498
<b>Expenses:</b>			
Salaries	283,600	5,499	289,099
Fringes	89,400	1,856	91,256
Consultant fees	335,489	-	335,489
Education	7,065	-	7,065
Advertising	267	-	267
Supplies	2,633	299	2,932
Postage	354	500	854
Telephone	490	-	490
Travel	19,810	23	19,833
Printing	154	25	179
Equipment usage and maintance	825	-	825
Direct equipment and software	8,129	-	8,129
Dues and subscription	2,845	274	3,119
Meeting expense	2,667	162	2,829
Consultant travel	1,789	-	1,789
Interest	-	1,465	1,465
Legal and accounting services	-	9,115	9,115
Other:			
Other direct	4,496	897	5,393
Other in-kind	103,773	21,293	125,066
Indirect costs	69,737	2,393	72,130
Total expenses	933,523	43,801	977,324
<b>Excess (deficiency) of revenues and other support over expenses</b>	<u>\$ (9,628)</u>	<u>\$ 24,802</u>	<u>\$ 15,174</u>

# NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

## List of Programs

### Program

### Funding Source

### Program Period

#### Economic Development Projects

(1) District Continuation Planning Grant 06-83-04807	U.S. Dept. of Commerce Economic Development Administration	04/01/03-03/31/04
(2) District Continuation Planning Grant 06-83-04677	U.S. Dept. of Commerce Economic Development Administration	04/01/02-03/31/03
(3) Community Development Block Grant MSC201045-EDPA	U.S. Dept of Housing and Urban Dev. Michigan Strategic Fund	05/01/02-05/30/03
(4) EDA Planning Assistance Grant 06-86-04634	U.S. Dept of Commerce Economic Development Administration	01/01/02-12/31/02

#### Corrections Projects

(5) Comprehensive Corrections Plan	State of Michigan Dept. of Corrections	10/01/02-9/30/03
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#### Transportation Projects

(6) FY 2003 Regional Transportation Planning Work	State of Michigan Dept. of Transportation	10/01/02-09/30/03
(7) Alpena Area-wide Comprehensive Transportation Plan 58290	State of Michigan Dept. of Transportation	10/01/01-09/30/03
(8) I-75 E-W Crossing 73253	State of Michigan Dept. of Transportation	10/01/02-09/30/03
(9) US 23 Heritage Route Transportation Plan 73242	State of Michigan Dept. of Transportation	10/01/02-09/30/03
(10) Emmet County Transportation Plan 74292A	State of Michigan Dept. of Transportation	10/01/02-09/30/03

#### Watershed Projects

(11) Thunder Bay Watershed Initiative 2002-0006	State of Michigan Dept. of Environmental Quality	11/01/02-10/31/04
(12) Twin Lakes	State of Michigan Dept. of Environmental Quality	10/30/01-12/31/02
(13) Cheboygan River Lower Black River Watershed Non Point Management Plan 2000-0162	State of Michigan Dept. of Environmental Quality	12/26/01-12/14/03

# NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

## List of Programs (Continued)

<u>Program</u>	<u>Funding Source</u>	<u>Program Period</u>
<u>Environmental Projects</u>		
(14) Misery Bay Great Lakes Program GL-97512201	U.S. Environmental Protection Agency	09/16/02-09/16/04
(15) Coastal Zone Management Greenways 02-6217-06	State of Michigan Dept. of Environmental Quality	03/31/02-12/31/02
(16) Coastal Zone Management GIS 03-309-13	State of Michigan Dept. of Environmental Quality	10/01/03-09/30/04
<u>Rural Development Projects</u>		
(17) Rural Business Enterprise Grant	U.S. Dept. of Agriculture	08/12/02-08/11/03
<u>Planning Projects</u>		
(18) Otsego County Link Michigan Plan	Otsego County	09/01/02-09/01/03
(19) Presque Isle County Hazard Mitigation Plan	Presque Isle County Michigan Strategic Fund	10/01/02-09/30/04
(20) Alpena County Master Plan and Recreation Plan	Alpena County	01/01/03-12/31/03
<u>Other Projects</u>		
(21) Various other small projects		



FEDERAL SINGLE AUDIT REPORTING



# Hill Schroderus & Co., LLP

Certified Public Accountants & Consultants

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 18, 2004

Board of Directors  
Northeast Michigan Council of Governments  
Gaylord, MI

We have audited the financial statements of the business type activities of Northeast Michigan Council of Governments as of and for the year ended September 30, 2003, and have issued our report thereon dated November 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Michigan Council of Governments' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Michigan Council of Governments' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Board of Directors  
Northeast Michigan Council of Governments  
Page 2

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan



# Hill Schroderus & Co., LLP

Certified Public Accountants & Consultants

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A -133

November 18, 2004

Board of Directors  
Northeast Michigan Council of Governments  
Gaylord, MI

### Compliance

We have audited the compliance of Northeast Michigan Council of Governments with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. Northeast Michigan Council of Governments' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northeast Michigan Council of Governments' management. Our responsibility is to express an opinion on Northeast Michigan Council of Governments' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeast Michigan Council of Governments' compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northeast Michigan Council of Governments' compliance with those requirements.

In our opinion, Northeast Michigan Council of Governments complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

### Internal Control Over Compliance

The management of Northeast Michigan Council of Governments is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northeast Michigan Council of Governments' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

**NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30,2003**

Federal Grantor Pass Through Grantor Program Title Grant Number	Pass-Through Grantor's Number	Federal CFDA Number	Award			Federal Expenditures
			Federal	State	Total	
U.S. Department of Agriculture						
Rural Business Enterprise Grant: August 12, 2002 - August 11, 2003	-	10.769	\$ 40,000	\$ -	\$ 40,000	\$ 38,037
Total U.S. Department of Agriculture			40,000	-	40,000	38,037
U.S. Department of Commerce						
Economic Assistance: Support for Planning Organizations		11.302				
April 1, 2003 - March 31, 2004	06-83-04807		55,000	-	55,000	25,391
April 1, 2002 - March 31, 2003	06-83-04677		55,000	-	55,000	12,397
			110,000	-	110,000	37,788
Planning Assistance:	06-86-04634	11.306	60,000	-	60,000	11,688
National Oceanic and Atmospheric Administration: Passed Through the MI Dept.of Environmental Quality: Coastal Zone Management Admin.						
October 01, 2003 - September 30, 2004	03-309-13	11.419	24,000	-	24,000	6,495
March 31, 2002 - December 31, 2002	02-6217-06		20,000	-	20,000	3,104
			44,000	-	44,000	9,599
Total U.S. Dept. of Commerce			214,000	-	214,000	59,075
U.S. Dept. of Housing and Urban Development						
Passed through Michigan Strategic Fund: Community Development Block Grant	MSC201045-EDPA	14.228	25,000	-	25,000	3,336
Total U.S. Department of Housing and Urban Development			25,000	-	25,000	3,336

**U.S. Department of Transportation**

Passed Through MI Dept. of Transportation:

Highway Planning and Construction:

I-75 East-West Crossing	73253	20.205	81,600	20,400	102,000	44,000
US 23 Heritage Route	73242		52,000	13,000	65,000	65,000
Emmet County Transportation Plan	74292A		52,000	13,000	65,000	6,162
Alpena County Transportation Plan	58290		54,400	13,600	68,000	11,952
Total U.S. Department of Transportation			240,000	60,000	300,000	127,114

**U.S. Environmental Protection Agency**

Great Lakes Program	GL-97512201	66.469	53,497	-	53,497	17,497
Passed Through the MI Dept. of Environmental Quality:						
Water Quality Management Planning						
Cheboygan River/Lower Black	2002-2006	66.454	143,604	-	143,604	65,188
River Management Plan	2000-0162	66.460	119,000	-	119,000	63,590
			262,604	-	262,604	128,778
Total U.S. Environmental Protection Agency			316,101	-	316,101	146,275
<b>Total Federal Awards</b>			<u>\$ 835,101</u>	<u>\$ 60,000</u>	<u>\$ 895,101</u>	<u>\$ 373,837</u>

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and Non-Federal Awards includes the federal grant activity of Northeast Michigan Council of Governments and is presented in accordance with generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – SUPPORTING DOCUMENTATION**

The financial reports, including claims for advances and reimbursements, and amounts claimed or used for matching, are timely, complete, accurate, and contain information that is supported by the books and records from which the basic financial statements have been prepared. The total amount reported as federal revenue on the financial statements agrees to the total amount of federal expenditures on the Schedule of Expenditures of Federal and Non-Federal Awards.



NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED SEPTEMBER 30, 2003

NONE

NORTHEAST MICHIGAN COUNCIL OF GOVERNMENTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2003

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Northeast Michigan Council of Governments.
2. No reportable conditions relating to the audit of the financial statements are reported in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Northeast Michigan Council of Governments were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Northeast Michigan Council of Governments expresses an unqualified opinion.
6. The auditor's report on compliance for each major program expresses an unqualified opinion.
7. The Council's Rural Business Enterprise Grant (CFDA 10.769), Highway Planning and Construction Grants (CFDA 20.205) and River Management Planning Grant (CFDA 66.460) were tested as major programs.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Northeast Michigan Council of Governments was not determined to be a low-risk audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None